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THE SUSPENSION OF SPECIE PAYMENTS, DECEMBER 1861.

I.

STATE OF THE FINANCES IN MARCH 1861.

On the day after his inauguration President Lincoln sent to the senate the nomination of Salmon P. Chase, of Ohio, as Secretary of the Treasury. Political considerations were of chief weight in determining this appointment. Mr. Lincoln perceived that the support of the various elements of which the young republican party was compounded would be necessary to secure the success of his administration. So Seward, the recognized leader of the radical wing of the party, was made Secretary of State; and Chase, the most prominent representative of the conservative wing composed of anti-slavery democrats, became Secretary of the Treasury.[1]

But, in addition to political availability, Mr. Lincoln thought Chase possessed peculiar personal qualifications for the position. True, his thirty years' connection with the Cincinnati bar, and

[1] Cf. Nicolay and Hay, *Abraham Lincoln, A History*, New York, 1890, vol. iii. p. 354.

the term in the senate and two terms as governor of Ohio, that constituted his experience of public affairs had brought him little familiarity with fiscal questions. But they had shown that he had a clear intellect, administrative ability, and untiring industry. And, above all, they had given him a name for strict integrity that would be of especial weight in gaining the public confidence indispensable to success in the management ot the then discredited treasury. Though Mr. Chase brought with him little knowledge of financial administration, his mind was deeply impressed with certain financial theories. From his former democratic affiliations he had imbibed the "hard-money" principles of Jackson and Benton, and their dislike for paper currencies. Personal observation of the unsound methods of banking then prevalent in the western states had strengthened these convictions and inspired in him an indiscriminating distrust of the issues of all banks whatsoever. The early suspension of specie payments and issue of an irredeemable currency of legal tender paper in the Civil War occurred then, under the administration of a Secretary of the Treasury who cherished a strong predilection for metallic money.[1]

It was with great reluctance that Mr. Chase resigned his seat in the senate to undertake the arduous task of managing the treasury in the face of threatening war.[2] The difficulties of his position were increased by the disorganized condition in which the federal finances had been left by the preceding administration. When Mr. Buchanan was inaugurated his Secretary of the

[1] Two biographies of Chase have been published, one by ROBERT B. WARDEN, *An Account of the Private Life and Public Services of Salmon Portland Chase*, Cincinnati, 1874, 8vo. pp. xxiii. + 838 (valuable chiefly for copious extracts from Mr. Chase's private papers); the second by J. W. SCHUCKERS, *Life and Public Services of S. P. Chase*, New York, 1874, 8vo. pp. xv. + 669. A third biography, by PROFESSOR A. B. HART, has been announced. See also HUGH MCCULLOCH, *Men and Measures of Half a Century*, New York, 1889, chap. xvi. and W. M. EVARTS, *Eulogy on Chase*, appended to SCHUCKERS' *Life*.

[2] Cf. Chase's letter to the governor of Ohio, SCHUCKERS, *op. cit.* p. 207, and letter of F. A. Conkling to E. G. Spaulding, October 17, 1875, in SPAULDING, *History of the Legal Tender Paper Money Issued during the Great Rebellion*, second edition, Buffalo (N. Y.), 1875, appendix, p. 84.

Treasury, Howell Cobb, of Georgia, found himself embarrassed by a redundant revenue, to reduce which Congress had just passed the tariff act of March 1857, lowering the duties upon imports. Unfortunately the financial crisis of 1857 and the commencement of the Mormon troubles followed hard upon the date when the new tariff took effect; the one, in conjunction with the tariff, decreasing the treasury receipts from customs by a quarter, the other increasing the expenses of the War Department. So, instead of a surplus, as in 1857, the fiscal year 1858 presented a deficit in the revenue.[1]

To meet the shortage Congress authorized the issue of 20 millions of one year treasury notes.[2] As the deficit recurred the next year, a fifteen-year loan of 20 millions was made;[3] and in March 1859, when the one year treasury notes began to fall due, it was necessary to extend their term to July 1860.[4] Even by that time the financial situation had not improved sufficiently to enable the government to pay the notes out of revenue, and another loan of 21 millions had to be authorized to procure the necessary funds.[5]

Early in September 1860, Secretary Cobb invited bids for ten millions of this loan, a sum sufficient to meet the notes coming due before January 1861. When the bids were opened, October 22, it was found that the whole sum had been taken at par or at a small premium. Payment of the subscriptions was to be made thirty days later. But in November Mr. Lincoln's election was followed by threats of secession from the southern press. This caused a sudden business revulsion, everyone being anxious to prepare his affairs for the coming storm.[6] The subscribers to the loan were timid and embarrassed. To encourage them,

[1] *Report of the Secretary of the Treasury*, December 1858, pp. 3–4.

[2] Act of December 23, 1857. 11 Statutes at Large, p. 257.

[3] Act of June 14, 1858. *Ibid.* p. 365.

[4] Act of March 3, 1859. *Ibid.* p. 430.

[5] Act of June 22, 1860. 12 Statutes, p. 79.

[6] *Report of the Secretary of the Treasury*, December 1860; cf. W. G. SUMNER, *A History of American Currency*, New York, 1875, p. 189.

Cobb offered an additional thirty days for making payments to all who would deposit one-half of their bids on the appointed day. Though most of the bidders accepted the offer, some preferred to forfeit the one per cent. deposits sent in with the bids rather than to take the bonds. From the ten millions offered the treasury realized only $7,022,000.[1]

Convinced by this ill-success that an attempt to negotiate the remaining 11 millions of the loan would fail, Cobb requested Congress to substitute treasury notes for the bonds, pledging the public lands unconditionally for their redemption. Further, he asked authority for a new loan of ten millions to supply the deficit in the revenues due to the contraction of business.[2] Six days after sending this report to Congress Cobb resigned, giving as his reason that Georgia required his services. Going home, he entered the campaign to persuade his state to secede, and a little later became vice president of the Confederacy.[3]

President Buchanan appointed as his successor Philip F. Thompson, of Maryland. Despite the change in secretaries, Congress acted on the second of Cobb's recommendations, authorizing the issue of ten millions of one year treasury notes at par to those bidders who would accept the lowest rates of interest.[4] The day after the act was approved, Thomas invited proposals for one-half of this loan. The response showed how low the national credit had sunk; $1,831,000 were offered at 12 per cent. or less; $465,000 more at rates between 15 and 36 per cent. All offers at 12 per cent. or under were accepted.[5]

To explain why the government was compelled to pay such high rates of interest is not difficult. Public confidence in the

[1] *Report of the Secretary of the Treasury*, December 1860, pp. 8–9 and 480–483; *Senate Executive Document No. 2*, p. 11, XXXVII Congress, first session.

[2] *Ibid.* p. 9.

[3] E. McPherson, *Political History of the Rebellion*, fourth edition, Washington, 1882, p. 28; James Schouler, *History of the United States*, revised edition, vol. v, New York, 1894, pp. 375 and 481.

[4] Act of December 17, 1860. 12 Statutes at Large, p. 121.

[5] *House of Representatives, Miscellaneous Document No. 20*, p. 3, XXXVI Congress, second session.

Buchanan administration was shaken; particularly, confidence in the management of the Treasury Department which for four years had been contracting debts to meet annually recurring deficits. The check to business following the election in November had intensified the uneasiness. One Secretary of the Treasury had resigned to aid the secession movement; his successor was distrusted as a southern sympathizer. South Carolina had already adopted the ordinance of secession; other states were on the eve of following her example. At Washington there was disorganization and indecision. Under such circumstances it was natural there should be hesitation in New York about lending to the government at such a crisis.

But the needs of the government were imperative. The full amount of the five millions offered was required to meet the treasury notes and interest on the debt due January 1. Foreseeing the failure of the public subscription, Mr. Cisco, the head of the subtreasury at New York, induced the New York banks to take at 12 per cent. interest whatever part of the five millions might not be bid for. Their offer was accepted by Secretary Thomas.[1] After the banks had paid a part of the money into the treasury they became convinced that Thomas intended "to transfer the money into the confederate region where it would be captured." Accordingly, they withheld payment of the next installment and sent representatives to confer with Mr. Buchanan.[2] The result was that Thomas resigned, ostensibly because he could not agree with the President in the measures adopted "in reference to the . . . . condition of things in South Carolina."[3] He was succeeded by General John A. Dix — a man who commanded the full confidence of the North — and the balance of the loan was paid.

Dix found the treasury empty, $350,000 of unpaid warrants

[1] *H. R., Miscellaneous Document No. 20*, p. 3, XXXVI Congress, second session.

[2] Correspondence between Mr. George S. Coe, one of the bankers concerned, and E. G. Spaulding, in H. King, *Turning on the Light*, Philadelphia, 1895, pp. 186–189.

[3] Letter of resignation, G. T. Curtis, *Life of Buchanan*, vol. ii, New York, 1883, p. 404.

accumulated, and a deficit in the revenue expected to reach nearly 27 millions by the end of June.[1] To meet immediate requirements he offered the remaining half of the ten-million treasury-note loan authorized the preceding December. An improvement in the government credit was indicated by the fact that whereas the government had been compelled to pay 12 per cent. interest for the first five millions, the second was borrowed at an average rate of 10⅝ per cent.[2]

But the sum thus realized did not last long and further borrowing became necessary. Judging from Cobb's failure that it would be impossible to negotiate the balance of the 21-million loan of June 22, 1860, under the terms of the law which forbade the sale of stock below par, Dix applied to Congress to authorize a new bond issue. He even suggested calling on the states to return the 28 millions of surplus revenue deposited with them in 1836.[3] Congress, however, would only pass a 25-million-loan act.[4] Dix then urged that the states be permitted to add the pledge of their faith to that of the federal government for the repayment of the loan; but the house refused to consider a bill for this purpose.[5] Nevertheless, when bids for eight millions of the new loan were invited in February, the whole sum was subscribed on terms that made the average rate of interest 6½ per cent., indicating a further improvement in the national credit.[6]

Such small loans, however, could afford but temporary relief. The real difficulty was the insufficient revenue. To stop the necessity of borrowing by increasing the treasury receipts was the nominal purpose of the last important act of the Buchanan administration. Bills to raise duties on imports had been

[1] Cf. Dix's letter to the chairman of the Committee on Ways and Means, *H. R.*, *Miscellaneous Document No. 20*, XXXVI Congress, second session.

[2] Cf. J. J. Knox, *United States Notes*, second edition, London, 1885, p. 76.

[3] *H. R.*, *Miscellaneous Document No. 20*, p. 6, XXXVI Congress, second session.

[4] Act of February 8, 1861, 12 Statutes at Large, p. 129.

[5] *Congressional Globe*, XXXVI Congress, second session, pp. 871 and 872.

[6] Bids were received for $14,460,250 at rates ranging from 75 to 96.10. Of these $8,006,000 were accepted, all the bids below 90.15 being refused, *Senate Executive Document No. 2*, pp. 19–30, XXXVII Congress, first session.

presented at every session of Congress since 1858; but all failed of adoption, until, shortly before the presidential election of 1860, the Morrill tariff act passed the house. It was not taken up by the senate until the following session, and even then its progress for a time was blocked. But finally, after many of the southern senators had left Washington, it was passed, becoming a law two days before the close of Mr. Buchanan's term.[1]

As a revenue measure the new schedule was foredoomed to failure. The heaviest duties were levied on articles largely produced in the United States; sugar and molasses were lightly taxed, while coffee, tea, and wool worth less than 18 cents per pound, were entirely free. Revenue was thus sacrificed to protection. During the quarter, January-March, the customs receipts were 9.7 millions; in the succeeding three months, when the new tariff was in effect, they were 5.5 millions — a decrease of over 40 per cent.[2] Thus, instead of improving the position of the treasury, the new tariff served only to increase the financial embarrassment of the government.[3]

II.

MR. CHASE'S ADMINISTRATION OF THE TREASURY, MARCH TO JUNE, 1861.

It was at a time, then, when the revenue of the government was insufficient to pay its expenses even on a peace footing, and when distrust and frequent borrowing had much impaired its

[1] Act of March 2, 1861, 12 Statutes at Large, p. 178. Cf. F. W. TAUSSIG, *Tariff History of the United States*, second edition, New York, 1893, p. 158. Section 1 of the act authorized a loan of ten million dollars.

[2] *Report of the Secretary of the Treasury*, December 1861, p. 30.

[3] On the condition of the finances at the commencement of the Civil War, cf. R. J. WALKER, *American Finances and Resources*, London, 1864; VON HOCK, *Die Finanzen und die Finanzgeschichte der Vereinigten Staaten*, Stuttgart, 1867, pp. 437–440; M. B. FIELD, *Memories of Many Men and of Some Women*, London, 1874, pp. 250–252; JOHN SHERMAN, *Recollections of Forty Years in the House, Senate and Cabinet*, Chicago, 1895, vol. i. pp. 251–254; KNOX, *op. cit.* pp. 70–83; J. G. BLAINE, *Twenty Years in Congress*, Norwich, Conn., 1884, vol. i. pp. 396–401; A. S. BOLLES, *Financial History of the United States from 1861 to 1885*, New York, 1886, pp. 4–6.

credit, that Mr. Chase, with small experience of financial operations, undertook to raise the means for waging a most expensive war. From April to June the ordinary receipts of ths treasury were 5.8, its expenditures 23.4 millions.[1] To fill the deficit there was but one recourse — borrowing. Disadvantageous as were the terms on which the recent loans had been made, it was to a new loan that Mr. Chase was forced to resort.

On the whole, he was in a more favorable position for borrowing than Cobb, Thomas or Dix had been. True, the political situation had become more grave. Mississippi, Florida, Alabama, Georgia, Louisiana and Texas had followed South Carolina's example in seceding from the Union, and when the new administration was installed at Washington it saw itself confronted by a rival government in Montgomery. But to offset this, Buchanan, who had become thoroughly discredited in the North, had given place to Lincoln in whom the people reposed greater confidence. In raising his first loan Mr. Chase had the benefit of this feeling. Moreover, the credit of the government was improved by a temporary increase of revenue. The Morrill tariff act, approved March 2, was to go into operation April 1. Importers took advantage of the intervening thirty days to pass their goods through the customhouses as rapidly as possible in order to escape payment of the higher duties imposed by the new schedule, thus increasing the receipts from customs for the months of February and March.[2]

Under the existing laws the secretary had authority to borrow some 41 millions of dollars. (1) Of the 21-million loan of June 22, 1860, Cobb had negotiated \$7,022,000, leaving a balance of \$13,978,000 which could be issued in 6 per cent. twenty-year bonds — a resource available under the law, however, only when the bonds could be sold at par. (2) The two five-million treasury-note loans raised by Secretaries Thomas and Dix had exhausted the authority to borrow under the act of December

[1] *Report of the Secretary of the Treasury*, December 1861, pp. 30–32.

[2] Cf. *American Annual Cyclopædia*, 1861, p. 296, and *Hunt's Merchants' Magazine*, vol. xliv. pp. 788 and 789.

17, 1860; but (3) Dix had issued only $8,006,000 of the 25 millions of 6 per cent. stock provided for by the act of February 8, 1861. The disposal of the remainder of this stock—$16,994,000—was not hampered by the customary provision forbidding sales below par. (4) Finally, the opening sections of the Morrill tariff act authorized a loan of ten millions upon 6 per cent. ten-twenty-year bonds at par, or upon 6 per cent. treasury notes; but the proceeds of this loan could not be applied to the service of the current fiscal year which would end June 30, 1861. However, this act made the authority to borrow, existing under other laws, more available, by permitting the President "to substitute treasury notes of equal amount for the whole or any part of the loans for which he is now by law authorized to contract and issue bonds." The treasury notes so issued were to bear interest at 6 per cent., be receivable for government dues, convertible at par into 6 per cent. bonds, and could be made redeemable at any time within two years; but, like the bonds, they could not be issued to creditors nor sold for coin at less than par.[1]

Mr. Chase began by advertising on the 22d of March, 8 millions of the 6 per cent. stock which, under the act of February 8, could be sold to the highest bidder.[2] Ten days were allowed for making proposals. When the bids were opened, April 2, it was found that the loan had been subscribed three times over at rates ranging from 85 to par.[3] This indicated an encouraging improvement in the credit of the government, for the offers for an equal amount of the same stocks made to General Dix only two months before varied from 75 to 96.10 and amounted to $14,460,250, as compared with $27,182,000.[4] But Mr. Chase thought the treasury notes, which he had authority to issue in

[1] Act of March 2, 1861, section 4, 12 Statutes at Large, p. 178. On Chase's authority to borrow, see his report of July 4, 1861, *Senate Executive Document No. 2*, p. 11, XXXVII Congress, first session.

[2] *Ibid.*, p. 31.

[3] Schedule of bids, *ibid.*, pp. 32-49.

[4] Cf. p. 7, *supra*.

lieu of the bonds, could be sold at better prices.[1] Consequently he accepted only the bids at 94 and above, amounting to $3,099,000, and on the 6th of April invited bids for the balance—$4,901,-000—in treasury notes.[2] Unfortunately the departure of the expedition to relieve Fort Sumpter had in the meantime become known. This created much uneasiness, and when the bids were opened April 11, but one fifth of the sum had been taken. Financiers who were interested in the success of the loan procured a delay, however, and by dint of their efforts subscriptions were secured for $5,340,000, two and a half millions of this sum being taken by a single New York bank.[3]

The means thus provided were soon exhausted by the large government disbursements, and it became necessary to borrow again. On May 11 the balance of the 6 per cent. stock of the February loan—$8,994,000—was advertised for sale.[4] Bids came in very slowly, and a failure of the subscription seemed probable. Such an event would have seriously affected the price of all government securities. In self-defense, the chamber of commerce of New York and the banks of New York and Boston came to the aid of the treasury. A card was issued May 11, signed among others by J. J. Astor, August Belmont, James Gallatin, A. T. Stewart, Moses Taylor, and George S. Coe, calling attention to the government loans and inviting "all capitalists and moneyed institutions to avail themselves of these opportunities for investment."[5] To give the committees appointed by the chamber and the banks more time to secure subscriptions, Mr.

[1] Since the treasury notes bore 6 per cent. interest and were receivable for all government dues, large importers derived a profit from investing in them the money held in readiness for the payment of customs duties. Cf. *American Annual Cyclopædia*, 1861, p. 296.

[2] *Senate Executive Document No.* 2, p. 50. XXXVII Congress, first session.

[3] *Ibid.*, p. 51. Of course only $4,901,000 of the bids—the amount advertised—were accepted. The treasury realized $7,814,809.80 from 8 million dollars of securities sold. *Ibid.*, p. 11. See *American Annual Cyclopædia*, 1861, *loc. cit.*, and J. J. KNOX, *op. cit.*, p. 80, on the difficulty experienced in negotiating the treasury notes.

[4] *Senate Executive Document No. 2*, p. 52. XXXVII Congress, first session.

[5] *American Annual Cyclopædia*, 1861, p. 297. Cf. "Federal Finances Examined" (*anon.*), *Hunt's Merchants' Magazine*, vol. xlvii, p. 504; and *ibid.*, vol. xliv. p. 791.

Chase postponed the opening of the bids four days, and also offered to consider bids for treasury notes at par in place of bonds, should that form of security be preferred by any subscriber.[1] Finally bids ranging from 60 to 93 were obtained for $7,441,000 of the stock, and bids at par for $1,684,000 of the treasury notes. All the later bids were accepted, and of the former all those above 85, amounting to $7,310,000.[2] From this loan of $8,994,000, the treasury realized the sum of $7,922,553.45.[3]

Requiring still more money, the secretary asked for proposals for the balance of the 6 per cent. twenty-year loan of June 22, 1860, amounting to $13,978,000.[4] As 6 per cent. government bonds could then be bought in the market at 84, the offer of this stock which the act forbade to be sold below par was a mere formality; but, by advertising the bonds, Mr. Chase complied with the terms of the law, and was enabled to issue treasury notes for the full sum.[5] Three bids, aggregating $12,000, were received; but they had been made under misapprehension and were withdrawn.[6] On account of this loan, however, Mr. Chase issued, by the end of June, $2,584,550 in treasury notes.[7]

Finally, just before Congress met, the treasury was again in need. Five million dollars were required to carry it along until new means of securing funds could be devised. As the two-year treasury notes were selling at a discount of 2 to 2½ per cent., they were not directly available. But the banks agreed to advance the amount required for sixty days, receiving 6 per cent. treasury notes as collateral security.[8]

[1] *Senate Executive Document No. 2*, p. 53. XXXVII Congress, first session.

[2] *Ibid.*, pp. 58 and 60.

[3] *Ibid.*, p. 11.

[4] *Ibid.*, *loc. cit.*

[5] Cf. references in note 8 *supra*.

[6] *Senate Executive Document No. 2*, p. 11. XXXVII Congress, first session.

[7] Of this sum $1,710,650 was sold at par for coin, and $873,900 was paid to creditors. *Ibid.*, pp. 60–62.

[8] Cf. *American Annual Cyclopædia*, 1861, p. 297; and *Hunt's Merchant's Magazine*, vol. xlvii. p. 505.

Two points in this review of the operations of the Secretary of the Treasury from March to July are of significance :

1. When hostilities opened the federal government was receiving but a quarter of its revenue from taxation; for the remaining three quarters it was depending upon hand-to-mouth borrowing.[1] From the 7th of March, 1861, when Mr. Chase was installed, to the 1st of July, there had been an addition of $14,-412,529.40 to the public debt.[2]

2. Mr. Chase had of his own accord inaugurated the policy of issuing interest-bearing treasury notes running one or two years, in preference to long-time bonds, whenever they would fetch a higher price, disregarding the danger to which such a course exposed the treasury of being called upon to redeem its notes while hard pressed for funds to support the government.[3]

III.

FINANCIAL LEGISLATION OF THE EXTRA SESSION OF CONGRESS.

Such was the situation when Congress convened in extra session July 4. Emphasizing the need of extraordinary measures, President Lincoln's message recommended that "at least 400,000 men and 400 million dollars" be placed "at the control of the government."[4] The financial program of the administration was outlined in a report submitted by Secretary Chase.[5]

It was estimated that the government would require 320 million dollars to meet the expenditures of the coming twelve months. Of this sum the secretary thought that "not less than 80 millions of dollars should be provided by taxation, and that

[1] From April to June, 1861, the receipts from customs, sales of public land, and miscellaneous sources, were 5.8 millions, from loans 17.6 millions. *Report of the Secretary of the Treasury*, December 1861, p. 30.

[2] *Senate Executive Document No. 2*, p. 18. XXXVII Congress, first session.

[3] Mr. James Gallatin, president of the Gallatin Bank of New York, advised strongly against this policy. See his *Two Letters to the Hon. S. P. Chase*, etc. New York, 1861. Cf. LAUGHLIN, *Report of the Monetary Commission*, Chicago, 1898, p. 399.

[4] *Lincoln's Complete Works*, ed. Nicolay and Hay, vol. ii. p. 60.

[5] *Senate Executive Document No. 2.* XXXVII Congress, first session.

240 millions should be sought through loans." The 80 millions would defray the expenses of a peace footing, estimated at 66 millions, the interest on the public debt, 9 millions, and an annual sinking fund of 5 millions. By revising the Morrill tariff, Chase thought the customs could be made to yield a revenue of 57 millions. An additional 3 millions from sales of public lands would leave 20 of the 80 millions to be raised by direct tax or by internal duties as Congress might decide.

To secure 240 million dollars by borrowing new loans to the full amount would be necessary; for the $21,393,450 which the secretary still had authority to borrow under existing laws,[1] was available only when creditors were willing to accept payment in 6 per cent. treasury notes at par, which, Mr. Chase admitted, was "not to be expected." He suggested (1) a national loan of 100 millions in 7.3 per cent. treasury notes, running three years; (2) a loan of like amount in 7 per cent., thirty-year bonds; (3) the issue of not over 50 millions 3.65 per cent. one year treasury notes to meet any need unprovided for by the proceeds of taxation and the other loans. But, said Mr. Chase, "the greatest care will . . . . be requisite to prevent the degradation of such issues into an irredeemable paper currency, than which no more certainly fatal expedient for impoverishing the masses and discrediting the government of any country can well be devised." [2]

If Secretary Chase erred in thus proposing at the outset to rely upon borrowing to secure three quarters of the means for waging the war because he doubted the readiness of the people to submit to heavy taxation, Congress was neither wiser nor bolder than he. With his report were submitted drafts of bills embodying its suggestions.[3] After one hour's debate, entirely

[1] The issue of $2,584,550 treasury notes under the act of June 22, 1860 (p. 11a, *supra*), had reduced the balance of that loan remaining to be borrowed to $11,393,450. Besides this there was the ten-million dollar loan authorized by the act of March 2, 1861. *Report, loc. cit.*, p. 12.

[2] *Ibid.*, p. 14.

[3] *Report*, July 4, 1861, pp. 65 ff. and 71 ff.

taken up by Mr. Vallandigham in an attack upon the policy of the President, the house passed the 250-million loan bill by a vote of 150 to 5.[1] In the senate a few verbal amendments were made;[2] these were quickly concurred in by the house,[3] and eight days after its introduction the bill was approved by the President.[4]

So hurriedly, indeed, was the work done, that a supplementary act had immediately to be passed.[5] Together, these two laws authorized the secretary to borrow 250 million dollars for which he could issue in such proportion as he might deem advisable, (1) 7 per cent. twenty-year bonds at par; (2) 6 per cent. twenty-year bonds "at any rate not less than the equivalent of par for the bonds bearing 7 per centum interest;" or (3) 7.3 per cent. three-year treasury notes, fundable in 6 per cent., twenty-year bonds. Fifty million dollars of the loan might be in the form of treasury notes, either bearing interest at 3.65 per cent. and payable in one year, or bearing no interest and payable on demand. In the latter case they were to be receivable for all public dues and of denominations as low as $5. Finally, 6 per cent. treasury notes, "payable at any time not exceeding twelve months from date," might be issued to the amount of 20 million dollars. To facilitate the negotiation of the loan, it was provided that any part, not exceeding 100 million dollars, might be borrowed abroad, and the principal and interest made payable in Europe; and that the secretary might "deposit any of the moneys obtained on any of the loans . . . . in such solvent specie paying banks as he may select."

Legislative endorsement was also promptly given to Secretary Chase's suggestion of increased taxation. August 5 a revenue act was approved which, (1) raised the tariff by imposing duties on tea, coffee, sugar, and molasses—important revenue articles admitted free or at low rates by the Morrill act;

[1] *Congressional Globe*, XXXVII Congress, first session, p. 61.

[2] *Ibid.*, pp. 109 and 127.

[3] *Ibid.*, p. 147,

[4] 12 Statutes at Large, p. 259. Act of July 17, 1861.

[5] *Ibid.*, p. 313. Act of August 5, 1861.

(2) apportioned between the states a direct tax of 20 millions, of which, however, there was small hope of collecting the quotas of the disloyal states, amounting to five million dollars; (3) levied a tax of 3 per cent. upon the excess of incomes above $800.[1] While certain features of this scheme of taxation encountered opposition, members evinced a striking readiness to waive objections and vote for any bill that the administration and the leaders of the houses held to be a "war necessity."[2]

The striking feature of the plan of finance thus recommended at the commencement of the war by the Secretary of the Treasury, and adopted by Congress, was the reliance upon borrowing to meet all the extraordinary military and naval expenditures. The taxes imposed were expected to yield revenue sufficient only to defray the ordinary expenses of government, to pay interest on the public debt, and to provide a small sinking fund. Nothing shows more forcibly the inadequacy of this policy than the quickness with which the necessity for increased taxation made itself apparent. The heavy expenses of the months following the adjournment of the extra session, begot a general conviction that a firmer foundation for the financial operations of the government was indispensable. When Congress reassembled in December it was met by a strong popular demand for a vigorous tax policy. "The country presents," said the Boston *Advertiser*, "the spectacle of a people praying to be taxed.[3]" An examination of the newspapers of the time shows how literally this was true.[4] Urged forward by public opinion, the

[1] Statutes at Large, p. 292.

[2] As examples of this disposition see the remarks of Mr. McDougall, of California, and Mr. Wilkinson, of Minnesota. *Congressional Globe*, XXXVII Congress, first session, p. 399.

[3] February 4, 1862.

[4] Cf. New York *Times* June 20 and July 23, 1861, and January 13, 1862; New York *Herald*, December 31, 1861, and January 7, 8, and 9, 1862; New York *Tribune*, June 26, 1861 and February 3, 1862; Springfield (Mass.) *Republican*, January 7, 15 and 21, 1862; Boston *Daily Advertiser*, January 11, 13 and 24, 1862; Boston *Journal*, January 8, 1862; Boston *Post*, January 28, 1862. Cf. the letters urging heavy taxation received by the Ways and Means Committee, SPAULDING, *op. cit.*, pp. 23, 24; Speech,

same Congress that had in August deemed 80 millions a sufficient revenue to raise by taxation, resolved in January with but six dissenting votes in both branches, to levy taxes that would "secure an annual revenue of not less than 150 million dollars."[1] Mr. Chase, also, took a firmer stand, advocating in his report of December 1861, an increase of the customs duties on tea, coffee, and sugar, and direct taxation aggregating 50 millions.[2] With increasing experience his appreciation of the "great importance" of raising the "largest possible amount" of revenue by taxation became keener. "It is hardly too much, ..." he declared to Congress in 1863, "perhaps hardly enough, ... to say that every dollar raised [by taxation] for extraordinary expenditures or reduction of debt is worth two in the increased value of national securities."[3] In the same report he explained his failure to recommend heavy taxation to the extra session of Congress in July 1861, by pleading the impossibility of foreseeing at that time the magnitude and length of the war.[4]

IV.

THE 150-MILLION-DOLLAR BANK LOAN.

Furnished by Congress with such ample power, Secretary Chase at once set about negotiating a large loan. Borrowing

ROSCOE CONKLING, *Congressional Globe*, XXXVII Congress, second session, p. 633; *Memorial of the New York Chamber of Commerce*, *Senate Miscellaneous Document*, *No. 95*, XXXVII Congress, second session, and EDWARD EVERETT in *Atlantic Monthly*, March 1862, vol. ix, pp. 393–397.

[1] *Congressional Globe*, XXXVII Congress, second session, pp. 344, 349 and 376.

[2] *Report of the Secretary of the Treasury*, December 1861, pp. 13 and 15.

[3] *Ibid.*, 1863, p. 12.

[4] *Ibid.*, p. 10. Another motive probably weighed heavily with those who directed the policy of the government at the commencement of the war. Mr. Lincoln's administration fully realized its dependence upon public support for success. Direct and internal taxation were not popular in the United States and had long been unfamiliar. It seems to have been feared in July 1861, that the temper of the North was not yet firm enough to submit cheerfully to the onerous burden of a heavy federal income tax and high internal duties. Cf. C. A. MANN, *Paper Money, the Root of Evil*, N. Y., 1872, p. 148; VON HOCK, *op. cit.*, p. 455; M. B. FIELD, *op. cit.*, pp. 255 and 278; J. G. BLAINE, *Twenty Years of Congress*, Norwich, Conn., 1884, vol. i. p. 410.

abroad was out of the question; for European capitalists were unwilling to lend.[1] Reliance upon a popular loan seemed hazardous, not only because of the ill success of recent ventures, but also because the market for bonds was stocked with the securities of several states which were negotiating war loans.[2] Circumstances seemed, then, to indicate the banks as the most available source from which to obtain means.

Fortunately the course of events had been such as to render the banks, at least in the northern Atlantic states, unusually strong. In the previous November the sudden panic following Mr. Lincoln's election had caused the banks to curtail discounts. A severe pressure for money followed and a suspension of specie payments was averted in New York only by the use of clearing-house certificates.[3] But the paper held by the banks was good, liquidation proceeded favorably and the threatened danger passed. The acute pressure was followed by general stagnation. In the unsettled state of the country there was a general disposition to avoid new undertakings and to keep old ones on a most conservative basis. The result was that the banks could make no new loans.[4]

[1] "It is utterly out of the question, in our judgment," said the London *Economist*, of July 20, 1861, "that the Americans can obtain, either at home or in Europe, anything like the extravagant sums they are asking for: Europe won't lend them; America cannot." *Economist*, 1861, pp. 927–928. Cf. BLAINE, *Twenty Years of Congress*. Norwich, Conn., 1884, vol. i. p. 409.

[2] New York and Pennsylvania had authorized loans of three millions each; Connecticut, New Jersey, Indiana and Ohio loans of two millions; Massachusetts, Maine, Illinois and New York City had each offered loans of one million, Iowa of $800,000, Michigan of $500,000 and Rhode Island of $100,000. *Bankers' Magazine* (New York), vol. xvi. pp. 79 and 116; and Appleton's *American Annual Cyclopædia* for 1861, pp. 297, 307 and 308.

[3] *Bankers' Magazine* (New York), vol. xv. p. 500; *Hunt's Merchants' Magazine*, vol. xliv. pp. 75–89, 196 and 327; SUMNER, *History of American Currency*, New York, 1875, p. 189; DUNBAR, *Chapters on the Theory and History of Banking*, New York, 1895, pp. 68–73. The Boston banks rejected the use of clearing-house certificates, but allowed 50 per cent. of balances at the clearing house to be paid in a bank's own notes. DUNBAR, *op. cit.*, p. 79. Cf. "Report of the Massachusetts Bank Commissioners," *Executive Document No. 25*, pp. 48–50, XXXVII Congress, third session.

[4] "Inactivity, or increasing stagnation," wrote Mr. James Gallatin to Chase in March, "is the characteristic of our business affairs." *Two Letters to the Hon. S. P. Chase*, New York, 1861, p. 5. Cf. *Hunt's Merchants' Magazine*, vol. xliv. p. 787 ff.

During the winter difficulty was experienced in making collections in the southern states. In the spring many firms resorted to intentional failures to rid themselves of northern obligations,[1] and in May a law was enacted directing that such debts should be paid, not to the creditors, but into the Confederate treasury.[2] The cessation of remittances from the South caused in May and June a series of failures affecting especially large jobbing houses.[3] But, owing to the very conservative nature of the business that had been done in the preceding half year, the crash did not become general. It had the effect, however, of making the times yet more dull; the transactions of the New York clearing house declined from 129 millions in the second week of March, to 80 millions in the corresponding week of August.[4] The banks were not seriously weakened by the failures,[5] but found it still more difficult to lend their capital. From December 1860 to August 1861 bank loans in New York diminished 23 millions; in Boston the fall from January to July was two, and in Philadelphia three millions.[6]

This decrease of loans was accompanied by a slight decline in circulation, a more decided increase in deposits, and a marked gain in the amount of specie held. Small imports — due partly

[1] *Hunt's Merchants' Magazine*, vol. xlvi. p. 316; *American Annual Cyclopædia*, 1861, p. 312.

[2] See text of the act in *American Annual Cyclopædia*, 1861, p. 310.

[3] *Hunt's Merchants' Magazine*, vol. xlv. p. 105. Dunn's agency estimated the indebtedness of the South to the North at 300 million dollars. *Ibid.*, vol. xlvi. p. 316. The losses of northern creditors were usually reckoned at 200 million dollars. Cf. *Report of the Massachusetts Bank Commissioners*, October 1861. *Executive Document No. 25*, p. 50, XXXVII Congress, third session; New York *Tribune*, September 18, 1861; President's Message, December 3, 1861, in *A. Lincoln*, *Complete Works*, ed. Nicolay and Hay, vol. ii. p. 99.

[4] See table of clearings in *Executive Document No. 25*, p. 107, XXXVII Congress, third session.

[5] The Massachusetts commissioners stated in October that the losses of the Boston banks by the repudiation of southern debts would not exceed in amount the undivided profits on hand. *Report, Executive Document No. 25*, p. 50, XXXVII Congress, third session.

[6] See tables, p. 314, *infra*.

to the Morrill tariff but chiefly to the depression of trade—and heavy exports of grain—the result of heavy crops at home and poor crops abroad—combined to turn the balance of payment toward the United States.[1] During the spring and summer months sterling exchange sold from two to three points below par in New York.[2] Not only was the usual drain of specie to Europe stopped, but the current was kept flowing in this direction, so that, though the receipts from California declined and considerable amounts were sent into the interior, specie accumulated in the vaults of the New York banks to an unprecedented degree. In August the ratio of the specie held by the associated banks of New York to their deposits and circulation was 50 per cent.; for Boston it was 27, and for Philadelphia 39 per cent.[3] Thus the banks were unusually strong; but they were making little profit because the stagnation of trade gave them few opportunities for lending their capital.

When, then, Mr. Chase appealed to them to assist the government, the banks were both able and willing to render efficient aid. A conference of representatives of the New York, Boston, and Philadelphia banks, held August 10–17 in New York, at the secretary's invitation, drew up in consultation with him a "plan for assisting the United States government."[4] Fifty million

[1] So large was the export of bread stuffs during the summer and autumn of 1861 that it more than offset the effect of the blockade in decreasing shipments of cotton. The movement is somewhat concealed by the usual statements of commerce by years ending June 30; but appears clearly in the official table of imports and exports of merchandise at the port of New York by months. From January to April, imports exceeded exports, but from May to December there was an excess of exports, amounting to five million dollars in June, two in July, two in August, four in September, five in October, six in November and six in December. See tables in *Hunt's Merchants' Magazine*, vol. xlvi. pp. 277–281.

[2] *Bankers' Magazine* (New York), vol. xvi. p. 736.

[3] See tables, p. 314.

[4] "It was greatly desired," said one of the most prominent of the New York bankers, "to include also the banks of the West, but it was found unpractical to secure the co-operation of the state banks of Ohio and Indiana; and the state banks of Missouri, the only other organization under a compacted system, were surrounded by combatants." Letter of George S. Coe to E. G. Spaulding, October 8, 1875. SPAULDING, *op. cit.* appendix, p. 90.

dollars were to be advanced to the treasury by the associated banks of the three cities. In return they were to receive at par a like amount of treasury notes running three years and bearing interest at 7.30 per cent. Further, the banks were given the option of taking a second 50 millions of the notes on the same terms October 15, and a third 50 millions December 15.[1] Mr. Chase considered the plan highly advantageous to the government. In the face of war he was borrowing money at "a rate of interest only 1.3 per cent. higher than the ordinary rate of 6 per cent." Besides he received 50 million dollars immediately to meet the pressing demands upon the treasury.[2] To the banks the plan offered profitable employment for their idle capital.[3]

The banks which thus undertook to lend the government 150 million dollars in four months' time had an aggregate capital of but 119.7 millions. Although unusually strong in specie at the time the agreement was made, their combined coin reserves amounted only to 63.1 millions.[4] This sum would hardly more than pay the first installment of the loan. To prevent its being exhausted at the very beginning, it was necessary that the banks should be able to replace very rapidly the specie which they paid to the government. They counted on doing this in two ways: First, they would sell the securities received from the government to the public for cash. It was part of the agreement that the treasury should help in this by opening public subscriptions to the loan in all parts of the country. Second, the specie given to the government would be speedily

[1] For text of this agreement see *Bankers' Magazine* (New York), vol. xvi. pp. 162, 163.

[2] Chase's letter to Trowbridge, in WARDEN, *op. cit.*, pp. 386–388.

[3] G. S. Coe, letter in SPAULDING, *op. cit.*, p. 90. At first the banks decided to divide the 50 millions among themselves in proportion to their respective capitals. This would have given the fifty-four New York banks 29½, the forty-six Boston banks 15½, and the nineteen Philadelphia banks five millions. But the Boston banks finally decided that they could not take more than ten millions; so that the New York institutions had to make up their subscriptions to 35 millions. *Hunt's Merchants' Magazine*, vol. xlv. p. 331.

[4] See tables p. 314.

paid out again in disbursements for the immense purchases of war supplies. The coin would thus be restored to the channels of trade, and naturally flow into the banks again.

If the banks could collect specie in these two ways as rapidly as they paid it out to the government, they could continue indefinitely to supply the treasury with funds. But the moment even a brief delay occurred in the return of specie to the banks trouble would come. The reserves would be depleted by the drafts of the treasury, and suspension would be inevitable. Such a delay would happen if anything occurred to make the public slow in buying the 7.30 treasury notes from the banks, or to interrupt the government's payments of specie out of the subtreasury, or to prevent men from depositing again in the banks the coin received from the government. The situation, both of the banks and of the treasury, was thus very precarious. The plan might work well in fair weather, but in the first storm it was likely to collapse. Mr. Chase, however, seems to have been unconscious that danger lurked in the scheme.

At the very outset the banks encountered an unforeseen obstacle. The independent subtreasury system required all dues to the United States to be paid into the treasury in coin.[1] This would compel the banks to send the specie lent the government to the subtreasuries, there to lie in the vaults until paid out in disbursements to public creditors. But provision had been made by Congress with the special intent of removing this difficulty.[2] The law of August 5 had relaxed the rigor of the subtreasury system so far as to permit the secretary "to deposit any of the moneys obtained on any of the loans . . . . in such solvent specie-paying banks as he might select," and allowed "moneys so deposited" to "be withdrawn from such deposit for deposit with the regular authorized depositaries, or for the

[1] Acts of July 4, 1840, §§ 19 and 20, 5 Statutes at Large, p. 385; and of August 6, 1846, §§ 19 and 20, 9 Statutes at Large, p. 59.

[2] See the letter of Mr. E. G. Spaulding, who drafted the section in question, *op. cit.*, appendix, p. 51; and remarks of W. P. Fessenden, chairman of the senate finance committee, *Congressional Globe*, XXXVII Congress, first session, p. 396.

payment of public dues."[1] Under this law the banks expected that the loan to the government would be managed in the same manner as a loan to a private person; they would credit the United States with a deposit of 50 millions upon their books, against which the Secretary of the Treasury could draw as he had occasion. But Mr. Chase's instinctive distrust of bank issues permitted no modification of the subtreasury system. He declined to make payments in bank checks on the ground that though the eastern institutions were ready to pay such checks in coin, their western correspondents on whom they might draw would possibly ask creditors of the government to accept bank notes in satisfaction. He therefore insisted that the loan be paid in specie into the vaults of the subtreasury. Much against their will, the banks complied.[2]

Nor was this the only point in which the banks found the policy of the treasury an obstacle to the success of the loans. Beside borrowing from the banks to secure funds, Mr. Chase took advantage of his discretionary power to issue non-interest-bearing treasury notes.[3] Though payable on demand in gold at

[1] Section 6, 12 Statutes at Large, p. 313.

[2] Secretary Chase's reasons for refusing to draw directly on the banks are given in a letter to Mr. Trowbridge, WARDEN, *Life of Chase*, p. 387. The side of the banks is represented in G. S. Coe's letter to Spaulding (*History of the Legal Tender Paper Money*, second edition, appendix, pp. 91–92); J. E. Williams' letter to Chase of October 4, 1861 (*ibid*, pp. 97–99), and his *War Loans of the Associated Banks to the Government in 1861*, New York 1876; JAMES GALLATIN, *The National Finances, Currency, Banking, etc.*. New York, 1864. Most writers have concurred in the opinion that Mr. Chase's refusal was an error. Cf., *Our National Finances, What Shall be Done?* [*anon.*] Boston 1862; SPAULDING, *op. cit.*, Introduction to second edition, pp. 1–4 and appendix, pp. 51–53; F. A. CONKLING, *ibid*, appendix, p. 85; J. S. GIBBONS, *The Public Debt of the United States*, New York, 1867, pp. 135, 136; H. V. POOR, *Money and its Laws*, second edition, New York, 1877, pp. 562–564; HORACE WHITE, *Money and Banking*, Boston, 1896, pp. 150–152.

[3] Acts of July 17, 1861, Section 1 (12 Statutes at Large, p. 259), and of August 5, 1861, Section 5 (*ibid.*, p. 313). During the three months, July to September 1861, Mr. Chase also obtained $14,019,034.66 from two-year 6 per cent. treasury notes issued under the act of June 22, 1860 (12 Statutes at Large, p. 79) as authorized by the act of March 2, 1861, section 4 (*ibid.*, p. 178), and $12,877,750 by negotiating sixty-day treasury notes under the same acts. In the quarter, October to December, he realized $18,600 more from sales of sixty-day notes. *Report of the Secretary of the*

the subtreasuries, and receivable for taxes and customs dues, these notes were accepted with reluctance. To facilitate their circulation, the secretary and other treasury officials signed a paper agreeing to take them in payment of their salaries, while General Scott issued a circular setting forth the superior convenience of paper money to soldiers desiring to send home a portion of their pay.[1] But the banks feared the government paper money would drive their own issues from circulation, and declined to receive the demand notes except on "special deposit." Should they receive the notes as current funds, bankers said, they would be under obligation to redeem them in coin on demand, and this would increase the burden which their reserves had to carry, and so endanger the maintenance of specie payments. Furthermore, the existence of a large amount of obligations, which the treasury might be called upon to redeem in coin at any moment of panic, was a standing menace to the solvency of the government, and in so far injured its credit, and made more difficult the rapid sale of the securities held by the banks to the public, on which the success of the loans depended. But it was in vain that the banks appealed to Mr. Chase to cease his issues. He replied, "If you can lend me all the coin required, or show me where I can borrow it elsewhere at fair rates, I will withdraw every note already issued, and pledge myself never to issue another; but if you cannot, you must let me stick to United States notes."[2] Unable to induce the secretary to alter this resolution, the banks again reluctantly yielded.[3]

Treasury, 1861, pp. 10 and 43; cf. *ibid.*, 1862, p. 31; Chase's letter to Trowbridge, WARDEN, *op. cit.*, p. 387; and R. A. BAYLEY, *National Loans of the United States*, Washington, 1881, p. 151.

[1] Text in *American Annual Cyclopædia*, 1861, p. 299.

[2] Letter to Trowbridge, WARDEN, *op. cit.*, p. 388.

[3] On the inconvenience caused the banks by the issue of the demand notes, see "Objections to Government Demand Notes, by a New York Bank Officer," *Bankers' Magazine*, New York, vol. xvi. pp. 353–357; letter of G. S. Coe, SPAULDING, *op. cit.*, appendix, pp. 92, 93; GEORGE MARSLAND, "The Banks and the Greenbacks," *Bankers' Magazine*, New York, vol. xxxi. pp. 173–181; BOLLES, *Financial History of the*

But though the position of the banks was weakened by Mr. Chase's refusal to allow the proceeds of the loan to remain on deposit until paid out to the creditors of the government, and by his issue of paper money, all went well for a time. Mr. Chase appointed agents in over two hundred towns to receive subscriptions for 7.30 treasury notes,[1] and issued an urgent address, appealing to the people to assist in making the "National Loan" a success.[2] His efforts were warmly seconded by the newspaper press, which explained the advantages of the loan to investors, and represented subscription as an act of patriotism. On their side the New York banks strengthened themselves by putting their coin into a common fund, and reviving the organization entered into to check the panic of the preceding November. The "Loan Committee" then appointed under the chairmanship of Moses Taylor, was entrusted with the superintendence of the execution of the contract with the government. It was part of the arrangement that the stock of specie should not be allowed to fall below one fourth of the net liabilities, exclusive of circulation and the credit given the treasury. In case any bank failed to maintain this proportion of reserve, the loan committee was directed to charge interest on the deficit, and to pay the interest received to the institutions holding the highest percentage of specie.[3]

United States, 1861–1885, pp. 34 and 37; H. V. POOR, *Money and its Laws*, second edition, New York, 1877, p. 564 ff; J. K. UPTON, *Money in Politics*, second edition, Boston, 1895, p. 77; LAUGHLIN, *Report of the Monetary Commission*, Chicago, 1898, p. 400; R. M. BRECKENRIDGE, "The Demand Notes of 1861," in *Sound Currency*, New York, October 1898, vol. v. pp. 336, 337. These issues came later to be called the "old demand notes of 1861." When specie payments were suspended (December 30, 1861) $33,460,000 were in circulation, *Report Secretary of the Treasury*, 1862, p. 9. Cf. J. J. KNOX, *United States Notes*, second edition, London, 1885, pp. 89–93.

[1] See list in *Bankers' Magazine*, New York, vol. xvi. pp. 308–310.

[2] Text is to be found in *ibid.*, pp. 290–292. The notes were offered at par and were to draw interest from August 19, but on taking the bonds subscribers were required to pay interest from that date to day of subscription, so that the interest received by the purchaser began with the date of his purchase.

[3] *Report of the New York Loan Committee*, *ibid.*, vol. xvii. pp. 138, 139. Cf. note 2, p. 24 *infra*.

The associated banks agreed to divide the subscriptions to the loan between themselves in proportion to their respective capitals. Each bank was to pay at once 10 per cent. of its subscription into the subtreasury, and to place the balance to the credit of the government upon its books.[1] Consequently, the progress of the loan may be traced clearly in the weekly bank returns of the three cities. In New York the first installment of the loan, 3.5 millions, was paid into the subtreasury August 19, 1861.[2] Comparing the reports of August 17 and August 24, a decrease of 2.6 millions appears in the specie holdings of the banks, and a like increase in the coin held by the subtreasury.[3] At the same time the balance of the government loan was added to the line of discounts, increasing the loans reported by 29 millions. Finally, the sum placed upon the books of the banks to the credit of the government to be drawn against produced a nominal increase of 27 millions in the deposits. Similar changes are seen on comparing the situation of the Boston and Philadelphia banks on the 17th and 31st days of August. In Boston payments to the subtreasury diminished reserves less than $300,000, while discounts and deposits increased 3.6 and 4.2 millions, respectively, in consequence of the government loans. The Philadelphia banks lost $600,000 in specie during the two weeks, and increased their discounts 4.6, and their deposits 3.7 millions.

But the situation immediately began to change. The banks paid up the loan in installments of about five millions at intervals of six days.[4] Each payment thus made into the subtreasuries decreased just so much the sum of the banks' loans, and also the sum credited to the government as a deposit. From August 31 to September 28 the decline of bank loans was 15 millions in

[1] See text of agreement of banks with government, and proceedings of the meeting of bankers in reference to it. *Ibid.*, vol. xvi. pp. 161–170.

[2] "Report of the New York Loan Committee," *Bankers' Magazine*, vol. xvii. p. 139.

[3] For this and the similar subsequent comparisons, see the tables showing the condition of the banks of New York, Boston, and Philadelphia, p. 314.

[4] Letter of G. S. Coe, in SPAULDING, *op. cit.*, appendix, p. 92.

TABLE SHOWING CONDITION OF THE BANKS PARTICIPATING IN THE $150,000,000 LOAN OF 1861.

(Compiled from tables in Ex. Doc., No. 25, p. 107, XXXVII Congress, third session; Appleton's *American Annual Cyclopædia*, 1861, pp. 64, 65; *Hunt's Merchants' Magazine*, vol. xlvi. p. 393.) 00,000 omitted.

	New York Banks						Boston Banks				Philadelphia Banks			
	Loans	Specie	Circulation	Deposits	Weekly Clearings	Specie in sub-treasury	Loans	Specie	Circulation	Deposits	Loans	Specie	Circulation	Deposits
1861														
January 5	$129.6	$24.8	$8.7	$ 86.5	$ 96.0	$ 3.5	$62.0	$ 4.2	$7.0	$18.7	$26.9	$4.0	$2.7	$15.3
February 2	121.9	31.1	8.1	87.9	122.1	4.3	63.3	4.6	6.2	18.2	25.8	4.6	2.8	15.3
March 2	121.9	34.5	8.3	89.6	126.7	9.2	62.7	4.8	6.4	18.0	25.1	5.0	2.8	14.9
April 6	122.1	41.7	8.9	94.9	123.3	8.5	62.9	5.8	7.0	19.9	25.4	6.5	3.1	16.0
May 4	124.6	38.1	9.3	95.0	106.4	9.8	61.9	5.8	6.9	18.8	25.4	5.9	2.7	15.7
June 1	118.3	37.5	8.7	90.2	88.8	11.5	60.2	6.5	6.1	18.5	24.7	5.7	2.3	15.3
July 6	112.1	45.6	8.9	90.6	88.3	4.6	60.3	6.1	6.9	18.5	24.1	7.0	2.2	15.9
August 3	111.7	46.2	8.6	92.2	81.4	6.7	61.3	6.2	6.4	18.1	24.2	6.7	2.1	15.9
August 10	110.0	48.6	8.7	92.0	80.4	5.6	61.1	6.4	6.5	18.0	24.1	6.8	2.1	15.6
August 17	108.7	49.7	8.5	92.0	80.2	4.4	60.9	6.7	6.4	18.2	24.0	6.8	2.1	15.3
August 24	137.7	47.1	8.5	118.5	82.9	7.0	61.8	6.7	6.2	19.5	27.5	6.5	2.0	18.2
August 31	141.1	45.1	8.4	120.4	83.4	8.9	64.5	6.4	6.2	22.4	28.6	6.2	2.1	19.0
September 7	139.2	41.9	8.9	114.1	89.1	13.1	64.3	7.1	6.5	22.7	28.3	5.6	2.1	18.3
September 14	136.6	37.5	8.8	106.8	95.6	14.3	64.3	6.7	6.4	22.2	27.9	5.0	2.1	17.0
September 21	130.2	36.8	8.7	99.3	97.1	15.6		No	data		27.5	4.7	2.2	16.5
September 28	126.1	38.1	8.6	96.6	85.7	13.1	62.3	5.7	6.3	20.0	26.7	5.2	2.2	16.3
October 5	149.3	39.8	8.8	121.4	110.7	10.6	63.7	6.4	6.7	23.2	30.5	5.4	2.2	20.3
October 12	156.3	41.1	8.7	129.2	114.0	10.8	65.6	7.2	6.7	25.5	30.3	5.9	2.2	20.9
October 19	151.8	42.3	8.6	126.4	122.8	9.5	65.1	7.0	6.6	25.5	29.7	6.4	2.3	21.1
October 26	147.3	42.3	8.4	121.7	111.2	7.3	64.4	7.2	6.3	25.1	28.8	6.5	2.2	20.3
November 2	144.0	41.3	8.6	117.9	113.8	9.1	67.5	7.0	6.2	24.8	28.4	7.8	2.3	20.4
November 9	140.6	41.2	8.9	113.4	116.7	7.8	63.3	7.3	6.6	24.4	27.9	6.9	2.3	20.0
November 16	137.3	41.5	8.8	111.2	117.5	7.4	65.2	7.5	6.4	25.3	27.6	7.1	2.2	19.6
November 23	158.5	41.6	8.6	133.4	121.6	7.9	66.3	7.6	6.1	26.7	29.5	7.4	2.2	22.3
November 30	162.8	41.5	8.5	136.3	104.7	7.0	66.9	7.7	6.0	27.9	30.0	7.4	2.2	23.0
December 7	159.8	42.3	8.8	133.6	120.0	6.7	66.2	8.5	6.3	27.8	31.3	7.3	2.2	23.0
December 14	157.6	39.4	8.6	129.4	114.7	7.8	66.0	9.7	6.3	27.8	31.2	7.4	2.2	22.9
December 21	155.8	36.8	8.6	124.9	125.3	2.8	65.6	10.1	6.1	28.1	31.0	6.2	2.1	21.7
December 28	154.8	29.4	8.4	116.5	91.1	4.0	65.6	9.0	6.1	27.6	30.9	5.5	2.0	21.0
1862														
January 4	154.4	24.0	8.6	111.8	100.6		65.6	8.9	6.5	27.1	31.0	5.7	2.1	21.4
January 11	152.1	25.4	8.1	113.9	105.6		64.7	8.6	6.6	25.6	31.1	5.7	2.2	21.3
January 18	149.1	26.1	7.4	113.3	107.7		64.4	8.6	6.5	25.4	30.6	5.7	2.1	20.7
January 25	145.8	26.7	6.8	110.9	100.0		63.0	8.6	6.3	24.0	30.4	5.8	2.1	20.1

New York, two millions in Boston, and two millions in Philadelphia. The corresponding decline in deposits amounted to 23.8, 2.4, and 2.7 millions respectively.

The point of crucial importance for the success of the bank loan, however, was the change in the stocks of specie held. The payments into the subtreasuries drained the bank reserves of about five million dollars a week. This loss was offset in part by the redeposit in the banks of money paid out by the government to army contractors and other creditors, and in part by sums received from the treasury on account of sales of 7.30 notes to the public through the subscription agencies—though it was not until September 3 that the banks received any reimbursement from this latter source.[1] For the first five weeks the withdrawal of specie from the banks so far exceeded receipts as to cause a rapid reduction of reserves. From Angust 17 to September 21 the New York banks lost 13 millions of specie. Whither the money had gone is shown by the contemporaneous gain of 11 millions in the coin held by the New York subtreasury. During the same time the Philadelphia banks lost two millions, or over 30 per cent. of their specie. In Boston the reserves increased slightly for the first three weeks and the subsequent loss was less serious than in the other cities, being slightly less than 20 per cent. In New York the loan committee found that the loss of coin reduced the reserves of some of the associated banks below the stipulated proportion of 25 per cent. to net deposits, making necessary a reapportionment of the specie for the first time on the 2d of September.[2]

[1] "Report of the New York Loan Committee," *Bankers' Magazine*, vol. xvii. p. 139.

[2] The apportionment was at first managed by charging interest upon the deficiency of reserve; but on September 21 this account was closed, and "thereafter the specie apportionment was made by requiring the banks to exchange loan certificates for specie whenever their specie was less than 25 per cent. of their net deposits." Loan certificates drawing 7 per cent. interest were issued to banks whose reserves had fallen below the limit by the committee for 90 per cent. of the amount of 7.30 notes, or assistant treasurer's receipts for payment on the loan, deposited with them. An issue of ten millions had been authorized by the banks April 24, 1861. This was increased to 15 millions December 18; to 20 millions December 28, and to 25 millions January 20,

After the 21st of September, however, the tide turned. "The disbursements of the government for the war were so rapid," said Mr. Coe, a New York bank president, "and the consequent internal trade movement was so intense, that the coin paid out upon each installment of the loan, came back to the banks through the community in about one week."[1] Such fresh deposits, together with the reimbursements received from the treasurer from the public subscription to the loan, came to exceed the payments of specie into the subtreasury, and the reserves consequently rose again. By the middle of October the New York banks held 5.5 millions more specie than on September 21. Meanwhile government disbursements had reduced the specie holdings of the subtreasury over six millions. In about the same period the reserves of the Boston banks gained 1.5 and those of the Philadelphia banks 1.7 millions.

Encouraged by the gain in specie, the banks agreed to take a second 50 millions of the 7.30 three-year treasury notes October 1, fifteen days earlier than the time agreed upon, although they had not yet completed their payments upon the first loan.[2] There was but one ominous sign — the popular subscription under the management of the treasury department had not been an unqualified success. In the hope of stimulating the lagging subscriptions, the Boston banks had issued a card September 11, saying: "The banks are meeting their engagements and furnishing the 50 millions with no practical inconvenience to themselves or the mercantile community; and if no more money was required no difficulty would be experienced. . . . *But who is to furnish the next 50 millions?* Are the banks expected to do so? If they are, the men of means, large and small, must

1862. The total issues were $22,585,000, and the largest amount outstanding was $21,960,000 from February 3 to February 7, 1862. The interest amounted to $396,-436.32. Certificates were issued to thirty-nine of the fifty associated banks, thirty-one of which paid more interest than they received. All the certificates were redeemed by April 28, 1862. *Ibid.*, pp. 142–145.

[1] Letter of October 8, 1875, in SPAULDING, *op. cit.*, appendix, p. 93.

[2] Cf. *Bankers' Magazine* (New York), vol. xvi. p. 397, and "Report of the New York Loan Committee," *ibid.*, vol. xvii. p. 140.

take and pay for the first 50 millions during the present month or early in October—otherwise it cannot be accomplished."[1] But, despite such appeals and the efforts of the secretary and the press, subscriptions became so slow, after about 45 millions of the first loan had been sold to the public, that the treasury agencies were closed and the banks undertook to dispose of the second 50 millions themselves without the aid of the government.[2]

Changes in the accounts of the banks, similar to those resulting from the first loan, followed the taking of the second. Comparing the reports for September 28 and October 12, an increase of loans is seen amounting to 30 millions in New York, 3.3 millions in Boston, and 3.6 millions in Philadelphia. At the same time, the credit given the government upon the books of the banks created a corresponding increase of deposits amounting to 32.6, 5.5 and 4.6 millions respectively. But, instead of falling off as in August, the reserves of the banks increased, maintaining a high level throughout October, November and the first half of December. Of course, as successive five-million installments were paid into the subtreasuries by the banks, their loans and deposits declined again after October 12, as they had after August 31. By November 16 (the last report made before the taking of the third loan) the fall of discounts in New York was 19, and of deposits 18 millions. The corresponding figures for Philadelphia were 2.7 and 1.3 millions; and for Boston (October 12 to November 9) 2.3 and 1.1 millions.

All this time, while supplying the federal treasury with specie on so large a scale, the banks had also to furnish the usual accommodations to the mercantile community. But they were able to serve both the government and the public with comparative ease. For, as the Massachusetts bank commissioners reported in October 1861, "the prostration of business robbed them of their usual customers, and the operations of the government, which have given rise to a new activity exerted in the public service, have caused the making of very little business

[1] *Bankers' Magazine* (New York), vol. xvi. pp. 366, 367.

[2] Chase's letter to Trowbridge, WARDEN, *op. cit.*, p. 387.

paper, such as banks are in the habit of discounting. Public contractors are usually paid in cash at intervals shorter than the average length of bank accommodations, and they have little occasion to borrow money." [1]

The last installment of the first 50 million loan was paid into the subtreasuries by the banks October 24, and payment on the second loan was begun five days later.[2] The operation proceeded smoothly, the decline of the reserves being insignificant, and the banks determined to take a third 50 millions of government securities November 16, a month before the date set in the agreement of August. But, because of the difficulty experienced in disposing of the three-year 7.30 treasury notes to the public, they declined to accept more of these securities, receiving instead twenty-year 6 per cent. bonds at a rate equivalent to par for 7 per cent.,[3] in the expectation that such bonds could be sold at a profit in Europe.[4] At the same time, the banks were given the option of taking on the 1st of January 1862 a fourth loan of 50 millions upon the same terms as the first and second.[5] In pursuance of this arrangement, the government was given credit upon the books of the banks for $45,795,478.48 (the proceeds of the 50 million-dollar bonds at the given rate[6])—increasing once more the sum of bank discounts and deposits.[7]

[1] *Executive Document No. 25*, XXXVII Congress, third session, p. 56.

[2] "Report of the New York Loan Committee," *Bankers' Magazine* (N. Y.), vol. xvii. pp. 139 and 140.

[3] This rate is 89.322463831, *Executive Document No. 25*, p. 129, XXXVII Congress, third session. This arrangement was made under authority of section 7 of the act of August 5, 1861, 12 Statutes at Large, p. 313.

[4] See the letter from a New York bank president published in the New York *Tribune*, December 25, 1861, p. 7.

[5] *Report of the Secretary of the Treasury*, December 1861, p. 10.

[6] *Ibid., loc. cit.*, cf. *Executive Document No. 25*, p. 129. XXXVII Congress, third session.

[7] For New York the gain from November 16 to November 30 was 25.5 millions in loans and 25.1 in deposits. For Philadelphia the corresponding figures are 2.4 and 3.4 millions. The Boston banks gained 3.6 millions in loans from the second to the fourth week of November and 3.5 millions in deposits.

For several weeks after the third loan was taken everything went well. The banks continued to pay regular installments on the second loan into the subtreasuries of New York, Boston and Philadelphia, and did not make the first payment on the third till December 10.[1] Meanwhile the specie reserves of the banks increased slightly in each of the three cities, so that by December 7 the New York banks held as much coin as at any time since August, and the Boston and Philadelphia banks were actually stronger in specie than at the time when the first government loan was made.

About this time, however, two untoward events occurred. The first was the publication, December 10, of the annual report of the Secretary of the Treasury to Congress. In his report to the extra session of Congress in the preceding July, Mr. Chase had estimated that receipts from customs dues and sales of public land would yield during the current fiscal year (July 1, 1861, to June 30, 1862,) a revenue of 60 million dollars, while the expenditures of the government would probably reach $318,519,582.[2] Enormous as this budget seemed, the succeeding months showed its inadequacy. The December report showed that the estimate of expenses should be increased 214 millions, while the estimate of revenue from customs and land sales should be reduced 25 millions.[3] But more than this, it had been generally felt that the plan of borrowing from banks could be only a temporary makeshift to serve until a permanent policy was matured. It was hoped that the report of December would present a definite plan of finance based upon adequate taxation. But Mr. Chase proposed taxes yielding only 50 millions,[4] and put his main reliance upon a scheme for reorganizing the banks of the country in such a way as to compel them to buy a large

[1] "Report of the New York Loan Committee," *Bankers' Magazine*, vol. xvii. p. 140.

[2] *Senate Executive Document No. 2*, pp. 5 and 8; XXXVII Congress, first session.

[3] *Report of the Secretary of the Treasury*, December 1861, pp. 11 and 12.

[4] *Ibid.*, p. 15.

amount of government bonds.[1] The disappointment caused by the report was keen.[2]

The second event was the Trent affair. November 8, 1861, Captain Wilkes of the American warship San Jacinto took two commissioners of the confederate states — Messrs. Mason and Slidell — by force from the British steamer Trent, plying between Havana and Southampton. In the United States lively satisfaction was taken in this capture, and Wilkes was dined by clubs and thanked by Congress. But when the news reached England, November 27, there was great indignation over what was felt to be a wanton insult to the British flag; and the government dispatched a Queen's messenger to Washington to demand the surrender of the prisoners and an apology. Were the demand not complied with the English ambassador was instructed to ask for his passports at once. This was a plain threat of war. Intelligence of the action taken by the English cabinet was received in New York on the 16th of December. As it had been reported that the confederates would not be released, it seemed highly probable that the federal government would be involved in a second war.[3]

The receipt of the news on the 16th caused a panic in the New York markets. On the stock exchange government securities fell 2–2½ per cent. Shares of all kinds participated in the decline,[4] and sterling exchange rose two points.[5] Wall street was filled with rumors of an agreement among the banks to suspend specie payments, and men with balances in banks commenced to turn them into special deposits.[6] Next day a

[1] *Report of the Secretary of Treasury*, December 1861, pp. 17–20.

[2] Cf. "Federal Finances Examined" (*anon.*) *Hunt's Merchants' Magazine*, December 1862, vol. xlvii. p. 507; *Appleton's Annual Cyclopædia*, 1861, p. 66; BLAINE, *Twenty Years of Congress*, Norwich, Conn., 1884, vol. i. p. 407.

[3] Cf. J. F. RHODES, *History of the United States*, vol. iii, New York, 1895, pp. 520–543.

[4] *Bankers' Magazine* (New York), vol. xvi. pp. 558 and 491; and stock quotations, *ibid.* p. 559.

[5] *Ibid.*, vol. xvi. p. 736.

[6] *Ibid.*, vol. xvi. pp. 491 and 558.

meeting of the associated banks was called to consider the situation. A motion was made to suspend specie payments at once, but the proposal failed of adoption. Instead, in the hope of quelling the panic, the banks unanimously adopted a series of vigorous resolutions, declaring that there was "nothing in the position of the loans to the government to cause uneasiness," and that they saw "no reason, justification or necessity for a suspension of specie payments."[1]

But these resolutions availed little. While the banks continued to pay specie into the subtreasury at the usual rate, the money paid out by the government to contractors and others, owing to the alarmed state of the public mind and the fear of a suspension, did not flow back as before into their reserves.[2] This cut off the chief source from which the reserves had been recruited. Meanwhile, the banks of Boston and the West commenced to draw heavily upon their balances in New York, so that the deposits fell off 17 millions in three weeks.[3] To meet this double drain—coming from the subtreasury and the interior banks—the New York institutions had no available resource. Fifty-four millions of their capital was locked up in government securities,[4] which could not be sold to obtain specie; for the fall in the price of stocks made it impossible to dispose of 7.30 treasury notes at home except at a heavy sacrifice,[5] and the danger of war with England cut off all hope of negotiating the

[1] See copy of the resolutions in *Hunt's Merchants' Magazine*, vol. xlvi. p. 101. Cf. the comment in the New York *Tribune*, December 23, p. 8, and December 30, p. 8; New York *Herald*, December 19, p. 6; and New York *Times*, December 30, p. 4.

[2] Cf. letter from a New York bank president in New York *Tribune*, December 25, 1861, p. 7.

[3] Cf. New York *Tribune* of December 23, p. 8, and of December 30, p. 8. The tables, p. 314 *supra*, show that the Boston banks increased their specie, while those of New York were losing rapidly.

[4] Cf. *Bankers' Magazine* (New York), vol. xvi. p. 560.

[5] Most of the 7.30 notes sold by public subscription had been taken by "small investors, and they were already offering them in the market to an extent which reduced the price to 96 for those that were indorsed and 98 for clear notes."—*American Annual Cyclopædia*, 1861, p. 299.

6 per cent. bonds in Europe.[1] The result of the situation was a rapid depletion of the specie reserves. The week that Mr. Chase's report on the finances was published the New York banks lost 2.9 millions of specie. The next report—made after the receipt of the warlike news from England—exhibited a further loss of 2.6 millions. During the next seven days the rate of depletion was even more rapid, the loss for the week amounting to 7.4 millions.

Under such a drain the complete exhaustion of the reserves was evidently a question of only a short time. Saturday, the 28th of December, the banks held another meeting to decide what measures should be taken. After a "rather stormy" session of six or seven hours, the resolution to suspend specie payments upon the following Monday, December 30, was carried by a vote of twenty five of the institutions represented to fifteen.[2]

[1] Letter from bank president in New York *Tribune*, December 25, 1861, p. 7. Cf. the remark of Mr. James Gallatin at the meeting of bankers, December 28, 1861; "We are now loaded down with government securities which we cannot sell."—*Bankers' Magazine*, vol. xvi. p. 627.

[2] Cf. Remarks made by Mr. James Gallatin at the Meeting of Bank Officers, . . . December 28, 1861." *Bankers' Magazine* (New York), vol. xvi. pp. 625–631; H. W. DOMETT, *History of the Bank of New York*, second edition, New York, 1884, p. 97, and accounts of the meeting in the New York daily papers of December 30, 1861.

It is to be noted that suspension was rather a measure of precaution to prevent further depletion of the reserves than one of necessity; for on the day when suspension was decided upon the New York banks held 4.6 millions more specie than they had at the commencement of the year. Their attitude was expressed in Mr. Gallatin's remarks: "The government must suspend specie payments or we must, and it is only a question of a few days more time as to who suspends first and who shall hold the specie now in our vaults. If we hold it, the people and the government will be alike benefited. If government takes it, the whole will be expended and hoarded by a few people."—*Bankers' Magazine* (New York), vol. xvi. p. 627.

At the time of suspension the account of the banks with the government stood as follows (*ibid.*), p. 560:

	Subscribed to loan	Paid in	Received back from government	Due to government
Banks of New York,	$102,056,835	$81,056,835	$27,125,000	$21,000,000
Banks of Boston,	29,159.095	23,159,095	7,750,000	6.000,000
Banks of Philadelphia,	14,579,548	11,579,548	3,875.000	3,000,000
	$145,795,478	$115,795,478	$38,750,000	$30,000,000

As the government had sold $44,375,000 of the first 50 millions of 7.30 treasury

"The suspension of the banks [of New York] was received in commercial and monetary circles without surprise."[1] The banks of Philadelphia, which had lost nearly two millions of specie in a fortnight, followed suit; and so did those of Boston, although the latter had managed to increase their reserves 1.6 millions between the 7th and 21st of December, and had then lost but 1.1 millions by the 28th, leaving them with 2.3 millions more specie than on August 17, when the contract for the first

notes to the public and had returned but $38,750,000 to the banks, it still owed them $5,625,000 on this account. Deducting this from the sum due the government, the net sum still owing by the banks on the loan was $24,365,000, of which $17,062,500 was the quota of the New York banks. The government made its last cash payment to the banks January 13, 1862, and the banks paid the last installment of money due upon the second loan January 15, and on the third loan February 4. January 24 the banks still owed the government $9,375,000. (Cf. "Report New York Loan Committee," *Bankers' Magazine*, vol. xvii. pp. 139 and 140, and comment on the money market, *ibid.* vol. xvi. pp. 560 and 655.)

There was a vexatious delay in the delivery to the banks of the securities they had purchased. The 7.30 treasury notes for the portion of the first loan which was not sold to the public ($5,625,000), were not received by the banks till January 24, 1862. The notes for the second loan were delivered in four installments between January 22, and February 5; and the 6 per cent. bonds for the third loan in nine installments between January 27 and March 5. ("Report of the New York Loan Committee," *loc. cit.*)

"As fortunately as unexpectedly," reported the New York Loan Committee June 12, 1862, in regard to the operation, "it has resulted profitably for the associates, and has probably enabled them to employ their means to nearly as much advantage as would have been done but for the political disturbances of the country. Most of the government securities which have been sold by the associates, have been sold by themselves at different times, and it is not possible for your committee to state the amount of interest for the capital invested which has been received thereon; but the associates still hold a large amount of them, the market value of which is much higher than the price at which they were taken." (*Loc. cit.*, p. 148.) Beside this, the banks drew interest at 7.3 per cent. upon the entire 50 millions of the first loan from the 19th of August, upon the second from the 1st of October, and upon the third from the 16th of November. As they paid up these loans at the rate of about five millions per week, not completing the payments on the first loan till October 24, 1861, on the second till January 15, 1862, and on the third till February 4, 1862, they were for a considerable time paid interest on funds that had not left their possession. On that portion of the first loan sold to the public, the banks received interest from August 19, 1861, to the dates of sale, amounting altogether to $621,290. (*Ibid.*, *loc. cit.* pp. 139-142, and *Report of the Secretary of the Treasury*, 1861, p. 9.)

[1] New York *Tribune*, December 31, 1861, p. 3.

government loan was taken. With the exception of the banks of Ohio, Indiana, and Kentucky, and a few scattered institutions, the suspension of specie payments became general.[1]

The suspension of the national treasury followed of necessity hard upon that of the banks. As Mr. Chase said, after the banks had ceased paying in specie, it was "certain that the government could no longer obtain coin on loans in any adequate amounts."[2] Consequently the treasury was obliged to cease redeeming in coin the demand treasury notes in circulation.[3]

The responsibility for the suspension of the banks and government has frequently been placed upon Mr. Chase for his issue of demand treasury notes and his refusal to draw directly upon the banks in making payments.[4] Examination of the condition of the banks, as shown in their weekly reports, however, hardly bears out this opinion. Doubtless the position of the banks would have been stronger had the secretary conformed his policy

[1] *Bankers' Magazine* (New York), vol. xvi. p. 650.

[2] Letter to Trowbridge, WARDEN, *Life of Chase*, p. 388.

[3] It has been stated in an official document that "the demand notes were paid in gold when presented for redemption," and that this, with their receivability for customs dues, "prevented their depreciation." (*United States Treasury Department Circular*, No. 123, July 1, 1896, p. 7.) But this is certainly an error. Mr. Chase himself said, "The banks of New York suspended on the 30th of December, 1861, . . . and the government yielded to the same necessity in respect to the United States notes then in circulation." (*Report of the Secretary of the Treasury*, 1862, p. 7; cf. *American Annual Cyclopædia*, 1861, p. 300; and *Hunt's Merchants' Magazine*, vol. xlvii. p. 509.) More than this, the "old demand notes of 1861" as the issues came to be called, *did* depreciate in value, which could hardly have happened had they been "paid in gold when presented for redemption." Current market reports in *Hunt's Merchants' Magazine* for 1862 and 1863 give weekly quotations of the price of gold and of "old demand notes." The latter bore a premium in United States notes, or "greenbacks," but a premium less than that of gold. The fact that there was any premium on them shows that the demand notes were not depreciated to the same degree as United States notes. But the fact that the premium upon them was less than the premium on gold, shows that their value was less than the value of coin, *i.e.*, that they were depreciated according to the specie standard. Cf. Chase's letter of June 7, 1862, recommending a second issue of United States notes, *House of Representatives Miscellaneous Document No. 81*, XXXVII Congress, second session; *Hunt's Merchants' Magazine*, vol. xlvii. p. 68; and R. M. BRECKENRIDGE, *op. cit.*

[4] For examples, see the citations p. 310, note 2, and p. 311, note 3 *supra*.

to their wishes.[1] But, inasmuch as no serious trouble had been experienced up to the second week of December, despite Mr. Chase's refusal to do as the banks desired, it seems unreasonable to attribute the sudden loss of specie in the last three weeks of December, which necessitated suspension, to the policy pursued by him throughout—especially when the result is so adequately accounted for by the depression due to the unfavorable treasury report and the fear of a war with England. These events made clear the weakness inherent in the plan of the bank loan. Suspension was inevitable whenever anything occurred to check the redeposit in the banks of money paid out by the treasury, and to prevent the banks from replenishing their reserves by selling the securities received from the government. A severe blow to the national credit would naturally produce this effect. It so happened that the publication of the disappointing treasury report and the Trent affair were the first occurrences of this nature momentous enough to arouse general uneasiness. Had there been no threat of war with England, and had the condition of the federal finances revealed in the report of December been less gloomy, the banks would probably have been able to carry out their program of taking a fourth 50 millions of treasury notes on the first of January. Suspension would then have been postponed, but, in all probability, not prevented. To assume that the banks could have continued indefinitely to carry their double burden—supplying both government and public with loans—is to assume that no serious reverse would have befallen the national credit; for, as twice said, a disturbance of public confidence would lead to the withdrawal of deposits and the hoarding of specie; the government securities held by the banks would become unsalable and suspension would follow.

As it was, the specie standard was abandoned within six months after the Civil War had fairly commenced. The country was left at the beginning of the new year, 1862, with a mixed circulation of paper money which neither the issuing banks nor the federal treasury were prepared to redeem in coin. Congress

[1] Cf. pp. 309–312, *supra*.

met the situation thus created by promptly authorizing the issue of legal tender paper currency under the plea of necessity. This act, approved February 25, 1862, inaugurated the era of a paper standard of value that lasted until the resumption of specie payments, January 1, 1879.[1]

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[1] General accounts of the 150-million bank loan and the suspension of specie payments are to be found in *Report of the Secretary of the Treasury*, December 1861, pp. 8–10; letter of Chase to Trowbridge, in WARDEN, *Life of Chase*, pp. 386–388; SCHUCKER'S, *Life of Chase*, pp. 227–231; *Report of the Loan Committee of the New York Banks*, *Executive Document No. 25*, XXXVII Congress, third session, pp. 125–142, and *Bankers' Magazine* (New York), vol. xvii. pp. 136–149 (details of the management of the loan by the New York banks); GEORGE S. COE, letter of October 8, 1875, to E. G. Spaulding, in latter's *History of the Legal Tender Paper Money*, second edition, Buffalo, 1875, appendix, pp. 89–96; republished under title, "Financial History of the War" in *Bankers' Magazine*, vol. xxx. pp. 536–544 (written from point of view of the banks, as is the next also); J. E. WILLIAMS, *The War Loans of the Associated Banks to the Government in 1861*, New York, 1876; *American Annual Cyclopædia*, 1861, article, "Finances of the United States," and pp. 61–66 (impartial); "Federal Finances Examined" (*anon.*) *Hunt's Merchants' Magazine*, vol. xlvii. pp. 505–507 — (criticism of Mr. Chase); VON HOCK, *Die Finanzen und die Finanzgeschichte der Vereinigten Staaten*, Stuttgart, 1867, pp. 442–446 (deficient in information); W. A. BERKEY, *The Money Question*, fourth edition, Grand Rapids (Michigan) 1878, pp. 154–158 (Version of the "greenback" party); BOLLES, *Financial History of the United States*, 1860–1885, pp. 20–42 (loosely written); W. G. SUMNER, *History of Banking in the United States*, New York, 1896 [vol. i. of *History of Banking in all Nations*], pp. 458–461; LAUGHLIN, *Report of the Monetary Commission*, Chicago, 1898, pp. 401–404.